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TAXATION OF LEVEL PREMIUM LIFE INSURANCE

BY

JOSEPH AREND DE BOER

President, National Life Insurance Company, Montpelier, Vermont

AN ADDRESS DELIVERED AT THE THIRD INTERNATIONAL CONFERENCE ON STATE AND LOCAL TAXATION AT LOUISVILLE, KENTUCKY, SEPTEMBER 22, 1909

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This paper will deal exclusively with taxation of level premium life insurance companies, giving no consideration to fraternal associations, building loan societies or assessment concerns. By a level premium life insurance company is meant one which, in consideration of a fixed premium, agrees to discharge a specific life insurance service and, in connection therewith and incidental thereto, makes guarantees in its policies of non-forfeiture and collateral availability, its entire service being based upon the mathematical doctrine of net valuation and statutory reserves. Such a company, in order to maintain its working assumptions and all the requirements imposed by law in the calculation of its liabilities and solvency from year to year, is compelled to secure a proper volume of new business in order to maintain the averages of both the natural and economic laws to which its guarantees stand related. This usually compels the company to regard an interstate business as essential to permanency of experience, apart from any natural desire to distribute its services as broadly as possible. An interstate business, in turn, obliges the company to observe all the legal requirements as to accounting, agency supervision, investment limitations, tests of solvency, standard policy provisions, adjustments of contracts, publicity and taxa-

tion. In other words, the company to which this paper relates represents an institution of life insurance founded upon the most exacting actuarial science and directed by all the requirements of laws, without regard to their character or variableness, as now existing in the different states. Both so-called mutual and stock companies are included but all other concerns are discarded for the reason that the strength, public service, demonstrated experience and vast asset holdings, as well as the income and outgo possibilities, of these old level premium companies properly group them by themselves in any study of the problems affecting their taxation. Besides, the taxation of life insurance by the different states has developed historically in connection with the rise and progress of these great and useful companies during the last sixty years.

RECENT HISTORY OF TAXATION.

The subject has been constantly to the front especially during the past four years, having had the attention of life insurance commissioners, life insurance executives, the American Bar Association and practically every legislative assembly. Academical experts have studied the subject and advanced their views and special efforts have been put forth by the business affected to interest the public or the policyholders themselves in the subject but with wholly insignificant results. The subject is hard to deal with in a satisfactory public manner. From its very nature it involves intricate mathematical concepts, complex state practices, mixed company views and varied ideas of expediency arising from the wants and desires of a given writer. The comparative side of the subject has been touched by a reference to England, Germany, and Holland and to their greater respect for life insurance services to the state and to their less exacting taxation but it is not to be expected that the various states will be governed to any practical extent by any allusion to the practice of foreign lands. The sentiment of the question has been touched forcibly, one writer calling life insurance taxation "burdensome and unjust," another declaring it to be "a monstrous injustice," a third advancing his criticism to the status of "a brutal injustice," while a fourth—and these are all quotations from most eminent writers on the subject—fails to understand "why the state should tax transactions which equalize losses." In short, the subject has been pushed through the underbrush of all sorts and conditions of arguments,

the widow and orphans, diminished poor houses, independent old age, increased individual credit, non-uniformity expense, local inconsistency, double taxation, competitive disadvantages, vicious reciprocal laws, a burden upon policyholders and a charge upon love and thrift in excess of the costs of state supervision. The sentimental, altruistic side to life insurance and the self-dependence of the citizen will always exist but the very growth in assets of the life insurance companies has raised the legislative interrogatory of securing for government a share of taxation upon the property without regard to the purpose for which it is accumulated or the sources whence it is derived.

The subject has passed long ago out of any question of no tax on life insurance. The question now is, how much of a tax, what shall be its form, and how uniformly can it be applied in this necessary interstate business in order to conserve policyholders' equities, mutual practice, inexpensive accounting and the mathematical theory upon which the business, all statutory reserves and all policy guarantees exist.

ARGUMENTS AGAINST TAXATION.

It is declared that a sound tax system should attack increase of wealth but not a system of adjusting losses. This fails to admit that life insurance operates to increase wealth by saving it and to increase its use and value through a scientific scheme of its distribution by exchange. It fails, also, to admit that the business through its prudent husbandry of enormous wealth has greatly increased the competitive forces in that wealth and, in some directions, brought it into competition with other forms of organized capital and wealth. The tax, therefore, whatever its proper form may be, is not levied merely on the system, the occupancy or the franchise but on the wealth or its evidences, although the nature and origin and the ultimate uses of a given amount of wealth must be considered in any equitable and statesmanlike system of taxation to be applied thereto.

It has been argued, also, that for every $100 paid in death losses there are $6 paid in taxes. This is an interesting fact but it omits reference to the other forms and amounts of service which life insurance supplies in the way of cash surrender values, matured endowments, life annuities, policy loans, lapse values, stock dividends, surplus savings upon the assumptions, and the sums disbursed in

the care and management of the business. There is a just distinction to be made between the primitive form of assessmentism insurance and the more highly organized form of level premium insurance with its accumulation of reserves. The first represents a widespread effort to get some kind of life insurance at a minimum price within the reach of the mass, while level premium insurance, which has demonstrated certainty of accomplishment, is obliged by its very nature to amass wealth. The tax, whatever form may be found proper, should be laid in lieu of all other taxes upon that wealth.

It is also urged that the tax imposed now well up toward 2% on gross premium income, is a tax on policyholders upon the privilege of insuring themselves. In discursive argument almost any kind of special plea may be advanced and even reasonably maintained. This argument however, is a too broad distribution of the middle term. All taxes are paid by the consumer, the user or the person served. A man pays the tax on the property he occupies through rent and pays a tax in creating a life insurance estate through his premium but the argument that the latter is a tax on the privilege to insure is no sounder than it would be to argue that a man pays a tax on the privilege to rent. The tax is imposed upon wealth and its supervision and to provide ways and means for the goverment, precisely as the companies themselves are forced to tax their income for expense accounts of a great variety in order to insure their own stability and growth.

The main argument advanced against taxation of the life company is that the policyholder pays the tax, the inference being that, if the policyholder understand this fact, he will combine with his associates everywhere and destroy all laws now taxing the business.

I have always held to the reverse of this proposition, believing rather that his sole question would be one of a square, uniform, equitable and reasonable deal in the matter and not one of how to break down utterly what many states now look upon as a sure source of revenue. The policyholder pays for everything, the risk, expense of management, taxation, publicity, state supervision, stock dividends, either out of his premiums or out of interest derived from the investment of their reserves. He is practically more interested (and most interested) in the net costs otherwise of his life insurance service and its certainty of performance than in these incidental matters of taxation and fees, so that it is not to be expected that any cure of existing evils can be hoped for from that source. Supervision itself must supply it.

There is also an argument against taxation of the life company founded upon the conception that it makes so much for human betterment as to entitle it to be exempt. This is a dangerous ground to take, considering the expenses involved in its application, the dividends paid on capital stock, the competition in rates on invested capital and the enormous cancellation accounts. For over twenty years I have referred to life insurance, as I now do, as possibly next to religion, a superb educational, moral and self-sustaining force; but human existence has also been benefited by agriculture, transportation, manufacturing and public services of various kinds, all taxed, and life insurance cannot on the ground of its service expect to escape taxation but may demand with strict justice that any taxation of its occupancy or resources shall be equitably and reasonably laid.

A FORM OF STATE CO-OPERATION

The argument that life insurance conserves the production of wealth and renders it more constant has been made the basis of a claim that it should not be taxed, as representing a higher form of state and national co-operation. However significant and true this statement is, it cannot dispose of the average legislative idea that concrete wealth, to whomsoever belonging or from whatever source derived or for whatever purpose held or disbursed, should bear its share in the burdens of government. The payment in advance of the required premium is essential to the success of the scheme, which in turn creates reserves, and these enter into investment competition and become a large part of the world's work, but, as the business is now done, the insured controls his equitable share in these funds. With him, therefore, it is not a gift but a purchase under free choice and a provision for his own well-being. His motive is not a reason for exemption, since, clearly, he is inspired by considerations of self-care and family support in all the operations of his life. The tax must concern itself with being just and reasonable in its relation to all other subjects of taxation. It must not be confiscatory nor so unevenly or irregularly applied as to make its payment confused and difficult in the practical operations of the companies or in their mutual accounting of experienced results. This disposes also of the claim that life insurance has become a branch of government, growing out of the extent and social values of its vast transactions. In fact,

however, only a fraction of our citizens live under its provisions, while government neither practically directs nor guarantees it. It is neither eleemosynary nor a branch of government but a public service, subject to state supervision. If, as is undesirable, life insurance should become a branch of government , it would pass out of taxation and become an enforced insurance service, a suggestion entirely out of harmony with our free institutions and one which involves the most dangerous political and economic problems imaginable.

There is much merit in the claim that so much of the premium as directly or indirectly enters into the payment of death losses should not be taxed. In general, however, all the arguments so far considered against all taxation of life insurance may be considered as imperfect and as rather constituting strong reasons for considerate and friendly treatment by the state governments upon the basis of a tax which shall be reasonable and right. It must distinguish between companies organized for profit and controlled by capital and those other forms of organized effort controlled by insurance or regulated by principles of fraternity or assessmentism and it must also be remembered, apart from the existing heavy, burdensome, discriminating and mixed taxes now paid by the companies in cash, that they are also indirectly taxed as a whole through the limitations placed upon them by law in their investment, insurance and policy work.

ONE SOLUTION DISCUSSED.

One solution of a just life insurance taxation has been offered by an official of large experience and an unusual reputation in his business. He suggests that all the annual premiums, new and old, received within a given state, be decreased by the costs of insurance, by commissions to its citizens, by death claims, by dividends, by new investments in real estate, mortgages, bonds of railroads and other companies and that the balance be taxed "at a rate comparable with taxes upon other property." This form was advanced as a substitute for all other taxation and it was urged upon the ground that it would be equitable, non-discriminatory and free from uncertainty. I think that this is not the case. Such a practice would invite manipulation in the values to be taxed through investment, would render uncertain and more varied the tax items which already maintain, would tend to wipe out state revenues from life insurance taxation upon companies doing a small new business and upon companies having

a large old business, would raise the utmost problems as to mutuality in the distribution of the tax costs and would create questions between states, counties, cities and towns as to their respective interests in any tax income based upon an average property tax. Such a plan would invite competition in methods by which, through a distribution of insurances and investments, coupled with a regard for prevailing property taxes, the entire taxation situation would be much further confused than it now is. What is eminently necessary is a simplification in the taxation of life insurance of the several states—a plan that is clear, easily to be understood, uniform in its application, one that will regard the business as it should be, as a taxation subject by itself on account of its nature and public services and with due distinctions to be admitted for intra-state and inter-state operations. No proposition of reform seems to me advisable which does not have regard to uniformity, simplicity, equality, ease of accounting, probable persistency over a long period of time, a non-confiscatory amount, and hold in view the existing legal requirements as to solvency, distribution of surplus or savings, standardized policy provisions, limitations on investments and the necessary costs of management. This brings examination of the subject up to the question of the views held by state officers, in charge of its supervision.

OPINIONS OF INSURANCE COMMISSIONERS ON TAXATION.

There have been current expressions on the subject by life insurance commissioners dating not further back than May last. Expressions from southern and western states dominate because their officers have of late been unusually active in directing life insurance thought. Taxation has been agitated everywhere, however, during the last four years. The substance of these discussions is practically covered in the course of this paper because essential to any correct consideration of the subject.

Reducing supervisory opinions to their lowest terms—we find the following conclusions: that where cities need money, they will not easily yield their hold; that the tax should equal only the costs of state supervision; that taxes should be reduced in reduction of rates; that a fair tax would be 2% on premiums, less losses and dividends, in lieu of all other taxes; that domestic companies should either be exempt or else lightly taxed under some arrangement of reciprocal laws; that state uniformity is impracticable; that national

supervision is superior to that by states; that taxation should be controlled by the state and not by its subdivisions in any degree; that a tax on reserves was an historic error and is now wisely declined; that the business should pay for its inter-state privileges but not out of proportion to other interests; that as the policyholder pays the tax, he should not be subject to increase or to discrimination; that life insurance taxes should be made as light as possible; that the existing average of about 2% on premiums is about right; that the business should pay the average rate of other property; that 1% on gross premiums and local taxes on real estate is sufficient; that taxation is impersonal and should be simple and uniform; and that the states and not the United States are entitled to the tax. This summary indicates that life insurance may not hope to escape some form of taxation, that its chance of uniform treatment is remote and that the serious added question has arisen of co-equal rights in life insurance as a subject of taxation between the Federal Government and the states. It has been stated that the commissioners in general favor a tax which shall equal only the costs of supervision but such an average opinion, if it exists, has not tangibly expressed itself in recommendations or submitted bills. So far as state supervision is concerned, the case stands in favor of taxation, no actual exploitation of reductions and no definite steps in support of uniformity.

Upon the whole, the case of the companies has not been better stated than by the Secretary of the New York Tax Reform Association: "The principles of taxation which apply to ordinary business apply to insurance. Taxes in business add to the costs of conducting it and are shifted to the customer. License and gross premium taxes are paid by the policyholder through increased costs of premiums. Taxes on accumulations, so far as they fall on values due to thrift and labor, discourage savings and production. The theory is still held in many places and is embodied in most state constitutions that everything which has value ought to be taxed. The way to combat the demand for insurance taxation is to point out the injustice of the attempt to tax everything at its selling value regardless of its character, its benefits to the state or the benefit received from the state."

This is correct so far as it goes but the cogent fact remains that an unusual and unprecedented agitation of these matters during the past four years has developed no improvement, but, rather that, in addition to former burdens, the government of the United States now

places a tax of 1 % upon net earnings, as defined by the new tariff law, while an actual tax paid of substantially $15,000,000 per annum in excess of the costs of supervision by the states has not incited membership comment in any degree. If their minds were aroused to action, they could and would influence action in their officers but, as it is, the officers of state must themselves lead in reforms.

EXPERT OPINION ON LIFE TAXES.

The daily press has given insignificant attention to the subject. The professional press had an opportunity afforded it to discuss the subject in the early part of 1909 in review of a special meeting of the Association of Life Insurance Presidents on tax matters, in December of 1908. I have examined the files of twenty-nine representative papers. Their reports of the discussions are adequate but there is found no general attempt at anything like a critical editorial review. This phase of the question is sufficiently covered by a single quotation taken from *The Weekly Underwriter:* "The subject was treated in an exceptionally able paper by Prof. Zartman of Yale University" and its article concluded that, with so much attention "from competent sources, it would seem that a well matured policy for a satisfactory understanding with the tax making power would be reached." The authorities referred to included Prof. Zartman, who advocated taxation of reserves, President Dryden, who advocated no tax in excess of supervision costs, and Manager Cox of the Presidents' Association, who advocated the practical system of a tax of 1% on the premiums. The academical, the financial and the reform view-points are thus presented in their simplicity but the argument of Mr. Cox is so descriptive of the average position assumed by men engaged in the business that it is entitled to a very condensed re-statement here: Life insurance can be conducted only by companies. The public requires them to live indefinitely. They must grow and expand. The Court, under Justice Bradley, has held that they should be able to transact business in different states. Sumner is quoted, that a life premium is itself a tax. The rule already is to tax premiums, except in Massachusetts, and such taxation is construed as a franchise tax. The net premium is considered as fair a measure of the tax as any other and meetings of international associations are cited as in favor of a tax upon net receipts, namely, gross income less death losses and other payments made to policyholders. The conclusion is, apparently, that a uniform tax, in lieu of all others

of 1% on net or gross premiums would be a reasonable and permanent solution.

The gradual evolution of professional opinion in favor of this conclusion also represents the gradual admission that the state does and may justly consider the vast assets in possession and their influence upon the economic problems of the times, the significance of corporate and stock control and the indispensable need of conserving the scientific hypothesis upon which the business is organized and works.

In connection with discussions of certain proposed tax bills in Wisconsin, upon the reserves as a basis, the following points were presented: that the abuse of state regulation is insignificant in comparison with the abuse of taxation; that life insurance does not create but simply exchanges and distributes wealth; that the history of life insurance taxation considers its taxation as a tax upon a tax; that there is no marked difference between a tax on life insurance, savings banks and building loan associations; that taxation of the reserves breaks down the hypothesis of rates and values; that asset taxation bears unequally upon different constituencies according to their activity and age; that asset taxation induces cancellation; that a tax on surplus discriminates between citizens unless deferred surplus credits be treated as a liability; that reserve taxation unfairly deals with assets due paid-up insurances; that reciprocal tax laws are vicious and increase insurance costs; and that a solvent and continuous business cannot be looked for, as state and national needs require, unless companies are permitted to maintain their assumptions and unify their practices and accounting and hold a reasonable amount of general surplus in support of same.

All this is a fairly exact summary of life underwriting, expert, official and editorial opinion and brings our further consideration of the subject directly to five concluding points: (1) non-uniformity in taxation; (2) a tax on net earnings by the Federal Government; (3) a state tax on reserves; (4) a percentage state tax on premiums; (5) a plan of relief.

NON-UNIFORM TAXATION.

The life insurance business not only objects to the amount of taxes in cash and in excess of supervision costs which the states collect, but it also most earnestly protests against the great non-uniformity in those taxes and in their uncertainty, upon the broad

grounds that its services to individual and state are mutual, co-equal and co-extensive and that individual and state interests require its operations to continue upon the basis of an interstate comity and activity. The companies themselves present uniform rates, uniform policies, uniform dividend returns and uniform practices as regards privileges, changes, adjustments and settlements. They have, in some instances, at least, made uniform absolutely their payments of commissions and allowances for office maintainance, and, in short, are uniform on all counts of action save in this one particular of diverse, unequal, inconsistent and uncertain taxation of the business by the several states. It is almost impossible to believe that state legislatures will not rouse themselves to the wisdom as well as the duty, of unifying what is now such a mixed and unequal charge upon the business, thus crystalizing further a growing sentiment which has already, if the courts so rule, passed control, supervision and tax participation to the Federal Government. Every life company discharging extended interstate service to the public is exposed to a state premium tax, to the payment of state licenses, to state fees, to local taxes on its realty, to license fees of its agents, to additional taxes on premiums collected in a given county, city or town, and such taxes bear upon both premium and reserve accounts, upon general and special incomes, and will bear upon net earnings also if that phase of the new tariff law is declared to be constitutional, while the entire matter is yet further confused and rendered burdensome to the citizen by outstanding reciprocal or retaliatory legislation.

The range in premium taxation is from nothing to 3% and said tax may fall upon the gross premium or upon the net, after allowing for dividends, losses or cash values disbursed. In general the percentage premium tax is levied upon the gross rate and approximates close to 2% as an average, which fact itself sustains the position that in the evolution of taxation practice the gross premium income has been most generally recognized as the simple, logical and most satisfactory basis of the tax on life insurance.

The various, multiform state licenses range from nothing to $300 and are involved in very uncertain and unsatisfactory provisions for their payment and due discharge. The complicated fee systems of the different states include fees for notary, for filing, for examiations, for copies of papers, for publications, for agents' copies, for examination of charter, for bonds of attorney, for the applications of agents, for care of deposits, for filing tax returns, etc., etc., and of

course they involve varying amounts. They indicate no harmony of purpose or understanding, no definite consideration by interstate commissioners and no specific attempt by the executives of companies to secure what is so palpably reasonable and desirable, a uniformity among the states. The question is not now raised of the propriety of licenses and fees but of their uniformity, nor are state supervisors or company officials criticized for lack of effort, it being pointed out merely that the great question of uniform life insurance taxation and uniform life insurance legislation is now actually before the states and they must give it consideration and solution if they either would not impair life insurance service to their people or further yield to the encroachment upon their rights to charter and control the life companies and use them as a source of equitable state revenue. It is the stupendous burden of variability and non-uniformity and the expense of keeping pace with the demands and, even the exactions of the states that has caused many a manager to favor a transfer of the supervision of life insurance from the states to the Federal Government, which of late has manifested a disposition to step in where the state does not tread.

Of course a non-uniform rate of tax on realty holdings is correct, since that ought to be governed by the local property tax, but even in their case there are too frequent evidences of discriminatory valuations against the companies. The charge for an agents' license is also too uncertain and, while it carries with it the right to act in most states, yet it requires the supplement of certain local or municipal fees in Alabama, Arizona, California, Florida, Georgia, Kansas, Kentucky, Louisiana, Missouri, Montana, Nevada, New Mexico, Pennsylvania, South Carolina, Texas, Utah, and Virginia.

In most states the tax on life insurance is computed on the gross premium and its payment goes to the state, but in addition thereto, the business has also been made a subject of taxation by cities or counties in Alabama, Georgia, Kentucky, Montana, south Carolina and Virginia.

This widespread and grievous dis-harmony in the taxation and costs of supervision gives the business of life insurance a just ground of complaint, especially, as has been so often reiterated, because its own rates, policies and practices are uniform. It fairly calls for the adoption of an early and definite legislative policy against the right, or propriety, at least, of any unit of government other than a state to tax this interstate business, a policy in favor of making uniform

license fees and departmental charges, and a policy, through the use of interstate comity, of effectuating by legislation a uniform system of main or leading taxation between the states.

THE NEW CORPORATION TAX.

While life insurance trustees have been seeking relief from both exorbitant and multifarious taxation without success, Congress has added a further tax of 1% on net earnings. It defines said earnings as inclusive of gross income, less the ordinary expenses of management, losses incurred, costs of reinsurances and, also such sums as may be required to protect statutory reserves. It does not appear to allow any offsets for increments in deferred surplus accounts or for dividends payable to policyholders in the next following year, whether such items are treated as liability in accounting or not. This tax, if declared to be constitutional, must needs be regarded as subject to a variable change in experience and therefore it will bear unevenly, and it is also a further charge upon the individual insured member on the costs of his insurance.

The so-called mutual life insurance company is not a profit-making corporation. It is not organized for profits. It represents a science and art for the distribution of loss in money and opportunity due to death. It must, to be both safe and fair, have a legal basis for rate and value computation. It must, to insure persistency in its adherents, work upon the level premium plan. It must, to equalize costs, provide for some surrender charges in cancellation accounts. It must, to grow and live, expand its activities outside of its own chartered state. It must, to insure contract performance charge higher rates than may be required by the hypothesis of the business. Its success and safety consist in an experience within those assumptions but such experience does not represent a profit but a saving and its return to the insured may be called a dividend or a surplus return but it is actually the return of an essential overcharge. Technically it may be argued that surrender charges on lapsed business and extra-tabular interest earnings in excess of what the reserves require represent an earning and I would not dispute that claim.

The contention is made broadly, however, that these companies, organized and conducted in the interest of individual and social service, are not organized for profit and should not be forced into

the category of those which are, without regard to the services which the latter bestow.

There is no objection intended here to a tax upon the capital stock or the dividends declared upon such stock, that being a subject of taxation by itself. It may even be admitted that the yearly increment in the general surplus of the mutual companies should be similarly treated as representing their capital stock, but that these self-organized and self-sustaining institutions should be classified as existing for profits is a proposition to which assent cannot be given or allowed.

There may exist considerations, not within my knowledge, for the imposition of this federal tax of 1%. To me it seems to be another step in the confusion instead of the solution of an already unfair, impolitic and injurious system of life insurance taxation, which cannot be harmonized without regard for the classification of tax subjects and the extent to which each subject should be taxed. The situation in Vermont, for example, is one in which for nearly a third of a century the state has depended for its revenues upon taxation of corporations doing business within the state. An invasion by the Federal Government upon the same source of income impairs that source of state support to that extent to say nothing of the adverse effects themselves upon certain forms of corporate service. It would have been correct and more conservative statesmanship for the Government to have continued satisfied with its tariffs, stamps and excises and with its power to tax the states on population, for the states to have unified and consistently developed their methods of taxing corporations, and for municipalities and counties to have personalty and realty *in situ* and in domicile as their means of support. Such a classification would be consistent with the history and trend of taxation in the states.

TAX UPON LIFE INSURANCE RESERVES

It is an almost natural conclusion that a simple way out of the existing confusion would be to tax the reserves or the assets of the life insurance company upon some theory that they represent individual property or classes of taxation already taxed or that distinctions in taxation should be made for the different forms of term, life and endowment insurance. The reserves of the company usually represent the major part of its assets and they are the property of the membership collectively. Each member may and does control the

direction of his equity in the total funds but he can exercise that control only by sacrificing his primary insurance. The reserves, as a total, exist to protect all the current and prospective policy claims and, as such, should not be individualized for local taxation purposes. Under any actuarialized system the rates are the mathematical equivalents of the insurances and the reserves arising therefrom are the measures of values for nonforfeiture guarantees. If a tax be laid upon the reserve or the cash value as a property tax and be made payable by the individual policyholder, it would result in such a mixed volume and increased cost of accounting and induce so much annoyance in the membership body as to break down the soliciting arguments and also so increase the cancellations of old insurance as to vastly impair, if not destroy, the business itself, or else it would force the use of policy forms which require no reserves at all, which system of life insurance has been disproved by experience. If a tax on reserves were made payable by the companies, which method in such case would be proximately feasible, it would constitute an invasion of the hypothesis as to net income on invested reserves to that extent, and, in such case, considering the variable character and value of the legislative expectancy it would require, in behalf of future certainty, a revision of the interest assumption, possibly even below the existing conservative reserve factor of 3 per cent., which stands adopted not merely for the sake of a positive solvency but also to insure and admit of the utmost care in the selection of investments. If such a tax on the reserves, apart from its functional bearing on the calculation of net rates, reserve values and nonforfeiture options and the selection of investments amounted as a total to such a sum as would be a disproportionate part of the company's necessary expense account, it would necessitate a revision as to its assumptions for loadings on account of fixed charges and contingent experience.

I do not advance the objection to asset taxation that it is a double taxation or any form of multiplied taxation, or that, to a marked extent, it is a tax upon the stocks and bonds of municipal and state corporations, representing an investment in public services and themselves quite often locally non-taxable, because the fundamental concept is that all taxation, save poll taxes, is impersonal as opposed to the ancient doctrine of the pure property tax with its accompanying provisions for exclusions, exemptions, offsets and evasions, a doctrine so grounded in popular ideas as to oppose today legitimate taxation

progress and tax reform. The objection to a tax on reserves is based upon its impairment of the mathematical hypothesis upon which life insurance has done its work, made its accumulations and expects to discharge its obligations, to which assumption it must annually respond in its accounting of statutory liability and for a full compliance with which, according to its composition, experience and asset holdings, its actuaries must direct and advise the companies with studious care. This working assumption as to the net interest factor, without regard to any demonstration of the current value of safely invested capital, is so important in its bearing upon the practice of insurance and the laws affecting its liability therefor that it should not be impaired or made uncertain by any invasion of the tax laying power. Such an invasion would be as positive an interference with the capacity of designed factors in business to discharge ultimate policy obligations as a tax on the right to farm, or to do anything else would subvert the rights of individuals unless the employment in such manner touched the interests of a state as to properly deserve its supervision through the principle of license. And it may be suggested in connection that it is a law of economics that the assets of life insurance should be automatically taxed in their enforced need of buying safe investments only. This fact has served to reduce the price of capital, to increase the credit of public securities, to advance the value of lands and safe city properties and to equalize and solidify the exchanges of the world in every respect. It is impossible not to conclude that, while a tax on reserves seems easy and natural, it is inconsistent with the theory of the business and also opposed to all modern conceptions of classification in taxation subjects upon the basis of their true value and relationship to the service and advantage of the individual and of society as a whole.

GROSS PREMIUM TAX ADVOCATED

In conclusion of the subject I advocate a uniform state tax of one per cent. (1%) on gross premiums collected within each state and in lieu of all other taxes. This opinion is based upon a full review of taxation practice, expert opinion and the just obligation of the business to the support of state government. Such a tax can be readily computed and with a minimum cost for accounting. It would bear uniformly upon all forms of life insurance as an occupation

or franchise tax. It would automatically tax progress and activity without impairing materially any working or actuarial assumption. It would adjust itself in practice as a charge upon the loading, where it properly belongs as an item of expense. It would not be a burden but a reasonable tax even upon a business which so signally conserves the moral and economic life of the states. With few exceptions it is understood that state supervisors of the business accept this view, with a possible reservation as to the rate itself, induced thereto by their consideration of all the factors involved. They must be looked to for changing the confused and incorrect system which now exists, since each in his own state, representing either a popular vote or a meritorious executive appointment, is competent to direct and influence the local acceptance of proper laws. The companies most earnestly demand the protection as well as the supervision of state governments in behalf of the important interests which they administer and they require this all the more because both the science of life insurance and its practice have of late years been narrowed down to very slender margins of contingent safety. None of its working assumptions should be exposed to further strain. The states may need revenue, supervision must collect its costs, insurance may be admitted as a subject of taxation and even Congress itself may tax its activity, its progress and its strength, but the rights, the needs, the desires and the welfare of the citizen policyholder also deserve consideration.

The following recommendations are submitted for final consideration.

(1) That taxation of life insurance companies should be reserved to the several states.

(2) That the tax should be based upon the gross premium income in each state at not exceeding 1%.

(3) That county and municipal taxation and their license fees should be abolished.

(4) That state fees, filing, publication, etc., should be made uniform in the several states.

(5) That agents' licenses should be made uniform and not exceed the cost of an adequate supervision.

(6) That the use of interstate comity through the advices of state commissioners should be substituted for reprisals through reciprocal and retaliatory legislation; and

(7) That there should be published in all insurance reports a full statement in detail of the income received by each state from

taxes, licenses and fees upon the business of life insurance, with a statement of the cost to the state of its supervision.

The general adoption of these principles and practices will contribute, I am confident, to the well-being of these valuable and important institutions and at the same time deprive no state of any revenue to which and to increase in which it is justly entitled.

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